

ASPECTS OF SELECTED MBT CREDITS

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TAX CREDITS ARE LIKE GOVERNMENT SPENDING

- Provide assistance for activity, donation, or payment of another tax.
- Usually unrelated to the structure of the tax.
- Some credits are earmarks.
- Some credits require approval of designated projects.
- Not subject to the annual appropriation process or review.
- Not inherently good or bad.

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WAYS THAT CREDITS ARE USED

- Refundable- amount of credit in excess of liability refunded to taxpayer.
- Reduction in liability- all or only a portion.
- Carry forward- unused liability may be used at a later time.
- Assignable may be sold by a tax payer cannot use the credit to one who can.

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CREDITS COVERED

- Personal property tax credit and personal property tax exemptions.
- Compensation credit.
- Investment tax credit.
- Research and development credit.

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PERSONAL PROPERTY TAX EXEMPTIONS

- Industrial personal property exempt from 6 mill state education tax and 18 local non-homestead mills.
- Commercial personal property exempt from 12 of local non-homestead mills.
- Portion of MBT earmarked to the school aid fund to offset the effects of the exemption.

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ADDITIONAL PERSONAL PROPERTY TAX CREDITS

- Industrial personal property- 35% of remaining taxes.
- Telephone personal property-13.5% credit.
- Gas pipeline property-10 % credit.
- Credit is refundable.

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PERSONAL PROPERTY TAX CREDIT AND EXEMPTION VALUES

- 24 mill exemption- \$330 million.
- 12 mill commercial exemption- \$119.5 million.
- 35 % industrial credit- \$137 million.
- Telephone credit- \$10 million; additional \$10 million reduction from reduced statewide average millage rate.
- Gas pipeline- \$10 million.

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COMPENSATION and INVESTMENT TAX CREDIT

- 0.37% of compensation paid in Michigan.
- 2.9 % of Michigan investment in tangible depreciable property; limited recapture when asset is sold.
- Taken together can provide reduction of 52% of liability before application of the MBT surcharge.

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RESEARCH AND DEVELOPMENT CREDIT

- 1.90 % of research and development expenses in this state.
- When used alone or combined with compensation and investment tax credit can reduce liability by 65% before application of the surcharge.

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CREDIT VALUES

- Compensation credit- \$185 million.
- Investment tax credit- \$107 million.
- Research and development credit- \$52.4 million.
- These three interact with each other.
- Also interact with small business alternative calculation credit which can replace credit loss dollar for dollar.

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BROWNFIELD CREDIT

- Credit for investment on contaminated site or in the case of core communities on functionally obsolete or blighted property.
- Eligible investments include improvements, demolition and personal property
- 12.5% of the eligible investment or 15% in core communities.
- 20% credit for projects designated by MEDC as urban impact projects

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BROWNFIELD CREDIT(CONT'D)

- Often combined with brownfield tax increment financing.
- Credits are assignable.
- Unused credits may be carried forward.
- Taxpayer may make credit refundable at 85 % of face value.
- Credit may be claimed when investments are completed.
- \$40 million annual cap in credit agreements.
- \$78 million cost in FY 2010.

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RETAINED CREDITS SBT CREDIT UNDER MBT

- Michigan early stage venture capital voucher.
- Workers' disability compensation
- Food bank and homeless shelter contribution
- Next Energy
- Renaissance Zone
- Historic Preservation
- 13 • Brownfield

SBT CREDITS RETAINED UNDER MBT(CONT'D)

- Hematite
- MEGA payroll
- Hybrid
- Farmland
- Small business credit with substantial expansion
- PPT with expansion
- Investment tax credit

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SBT CREDITS NOT RETAINED IN MBT (11 CREDITS)

- Public Utility Property Tax Credit
- Pharmaceuticals
- Unincorporated Business Credit
- MEGA Business Activity Credit
- Enterprise Zone
- Apprenticeship
- Donated Auto
- Minority Venture Capital Credit
- Transferred Jobs Credit
- Created Jobs Credit

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NEW MBT CREDITS (CONT'D)

- Filing threshold credit
- Bottle deposit administration
- Anchor credits
- Film production
- Film infrastructure
- Photovoltaic investment
- Photovoltaic energy consumption costs
- Battery credits

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NEW MBT CREDITS (CONT'D)

- NASCAR Speedway Credit
- Stadium credit
- Arts and culture credit
- Michigan entrepreneurial credit
- Education foundation credit
- New motor vehicle dealer credit
- Two Michigan headquartered food retailer credits

Distribution of Certain MBT Credits

TY 2009 Law

ALL FIRMS Breakdown by SIC

<u>Business Sector</u>	<u>% of Total Michigan Compensation Credit</u>	<u>% of Total ITC Credit</u>	<u>% of Total R&D Credit</u>	<u>% of Total Refundable PPT Tax Credit</u>
Ag., Forestry, and Fishing	0.7 %	0.6 %	0.0 %	0.0 %
Mining	0.3	0.6	0.0	0.0
Construction	4.3	2.8	0.0	0.0
Manufacturing	20.0	35.8	54.1	77.8
Other Durable Mnfctrrs	6.4	5.7	10.2	15.2
Non-Durable Mnfctrrs	5.2	6.5	12.0	18.3
Primary Metals	0.9	0.1	1.1	1.9
Fabricated Metals	2.4	2.5	1.8	6.0
Machinery--Excpt Elctrl	2.4	1.5	3.3	5.9
Transp. Equip.	2.6	19.6	25.7	30.5
Transportation	2.3	1.9	0.0	0.0
Communications & Util.	2.5	6.8	6.8	12.8
Wholesale Trade	4.1	3.5	7.8	0.0
Retail Trade	14.0	16.0	2.4	0.0
Finance, Insur., & REstate	8.3	17.2	4.8	0.4
Services	39.4	12.2	24.1	0.1
Not Elsewhere Clssfd/Misc.	4.1	2.6	0.0	8.8
All Businesses	100.0 %	100.0 %	100.0 %	100.0 %
Manufacturing	20.0 %	35.8 %	54.1 %	77.8 %
Non Manufacturing	80.0 %	64.2 %	45.9 %	22.2 %

Notes:

. Refundable Personal PPT credit refers to credit for industrial and telephone personal property taxes.

. Under TY 2009 law:

Additional revenue from 21.99% MBT surcharge is limited to \$6 million per taxpayer.

The sum of ITC and MI payroll credits cannot be more than 52% of the taxpayer's liability before those credits.

The sum of ITC, MI payroll and R&D credits cannot be more than 65% of the taxpayer's liability before those credits.

Prepared By: Office of Revenue and Tax Analysis, Michigan Department of Treasury

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